



The Commonwealth of Massachusetts

**DEPARTMENT OF
TELECOMMUNICATIONS AND ENERGY**

D.T.E. 05-93

December 29, 2005

Petition of Nantucket Electric Company for approval of its Cable Facilities Surcharge to become effective on January 1, 2006.

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25 Research Drive
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FOR: NANTUCKET ELECTRIC COMPANY
Petitioner

I. INTRODUCTION

On October 10, 1995, the Department of Telecommunications and Energy (“Department”) approved a settlement (“Merger Agreement”) in which New England Electric System acquired Nantucket Electric Company (“Nantucket Electric” or “Company”). New England Electric System/Nantucket Electric Company, D.P.U. 95-67 (1995). Pursuant to the Merger Agreement, Nantucket Electric’s customers pay Massachusetts Electric Company’s rates plus a cable facilities surcharge (“CFS”) calculated annually to recover the cost of underwater cable facilities to serve Nantucket. Id. at 2-3. The Department approved Nantucket Electric’s most recent CFS on December 28, 2004. Nantucket Electric Company, D.T.E. 04-112 (2004).

On December 1, 2005, Nantucket Electric filed its proposed 2006 CFS with the Department to become effective January 1, 2006. Pursuant to notice duly issued, the Department conducted a public hearing on this matter on December 19, 2005. The record consists of two exhibits:¹ (1) Nantucket Electric’s CFS filing consisting of the testimony and exhibits of William J. Goguen, coordinator of regulatory support for National Grid USA Service Company, Inc.² (“National Grid Service”), (Exh. NEC-1); and (2) Nantucket

1 At the conclusion of the public hearing, the Department allowed Nantucket Electric’s motion to admit into evidence its prefiled testimony and exhibits and its responses to the Department’s information requests.

2 In March of 2000, National Grid Group plc, a holding company, acquired New England Electric System, and organized National Grid USA, a wholly-owned subsidiary. See Niagara Mohawk Holdings, Inc., Order Authorizing Merger and

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Electric's responses to the Department's First Set of Information Requests (Exhs. DTE 1-1 through DTE 1-3).

II. THE CFS

A. Description

Nantucket Electric calculates its CFS based on annual projected costs and projected kilowatthour ("KWH") sales that are reconciled to actual figures in the next annual CFS filing (Exh. NEC-1, at 7-8). The Company projects its 2006 cable facilities cost of service for the existing cable to be \$2,306,400 (id. at 7, 14, 18, 20). Its 2006 estimated cost of service for its cable facilities is composed of: (1) return and taxes on rate base; (2) depreciation expense; (3) amortization of financing costs; and (4) a credit for fiber optic rental revenues (id. at 7).

Nantucket Electric's 2006 CFS net revenue requirement is \$2,197,526 (id. at 5, 14, 18, 36). This revenue requirement consists of the estimated cost of service (\$2,306,400), a preliminary reconciliation of the 2005 CFS (an over-collection of \$89,263), and the final reconciliation of the 2004 CFS (an under-collection of \$10,129) (id. at 5, 14, 18). In addition, the Company has included as a credit to the cost of service a final credit balance of \$29,740

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Granting Waivers, Authorizations, and Declaratory Order in Part, 95 FERC ¶ 61,381 at 2 (2001).

collected from Nantucket customers related to the Siasconset underground project³ (id. at 6, 14, 18).

The preliminary reconciliation of the 2005 CFS is based upon actual costs through September 2005, actual revenues through October 2005, and forecast costs and revenues for the remaining months of 2005 (id. at 5, 25). Specifically, the 2005 preliminary over-collection of \$89,263 results from taking the revised projected 2005 cost of service of \$2,413,547, less the estimated over-collection for 2004 of \$60,285, less the final 2003 over-collection of \$16,028, and reconciling it with the actual/forecast CFS revenue of \$2,426,497 (id. at 8, 18, 25). The final reconciliation of the 2004 CFS results in an under-collection of \$10,129 by subtracting the estimate of the 2004 over-collection included in the 2005 cable surcharge calculation (\$60,285) from the actual 2004 over-collection of the cable surcharge (\$50,156) (id. at 9, 18, 29).

According to Nantucket Electric, its 2005 CFS was designed to both recover the identified revenue requirement and to avoid significant swings in rates. D.T.E. 04-112, at 2. In its 2005 CFS, Nantucket Electric proposed to allocate the 2005 revenue requirement to each of its rate classes based on the amount of revenue each rate class had contributed during 2004. Id. at 3.⁴ According to the Company, allocating the CFS in this way ensures equity among

3 To compensate the Company for the cost of replacing overhead structures with underground facilities as required by a local bylaw passed pursuant to G.L. c. 166, § 22D, the Company collected a 2% surcharge pursuant to G.L. c. 166, § 22M.

4 Nantucket Electric's method for allocating its 2005 revenue requirement resulted in a
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rate classes, avoids the rate shock that might result from an alternative allocation, and insulates customers from significant swings in average rates. Id. Nantucket Electric also proposed to continue the seasonal (summer/winter) CFS rates to maintain consistency with its historic rate structure. Id. For 2006, the Company proposes that the current 2005 class-specific summer and winter CFS rates remain in effect (NEC-1, at 5).

In addition, the Company proposes to delay implementation of rate recovery for a second cable (id. at 13). The Department approved the Company's proposal to install a second cable in D.T.E. 04-10 (2004). The Company anticipates that the second cable will go into service on Dec. 31, 2005 (NEC-1, at 5, 11, 13). However, the Company does not propose to implement any rate recovery for the second cable in its 2006 CFS. Rather, sensitive to recent increases in electricity supply prices, the Company proposes to defer implementation of rate recovery until its 2007 CFS filing (id. at 13). The Company proposes an interest rate on the deferral at the customer deposit rate, which for the year 2005 is at 2.38 percent (id. at 14).⁵

B. Analysis and Findings

Pursuant to the Merger Agreement, in reviewing the CFS, “the Department will assess, among other things, whether the surcharge comports with the Department’s other requirements regarding rates and rate design.” D.P.U. 95-67, at 20. As noted above, the Company

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varying CFS charge for each rate class. The Company proposes using the same class specific rates for 2006.

5 The actual interest rate on customer deposits will be updated in January 2006 pursuant to 220 C.M.R. § 26.09 (2).

proposes to apply the final credit balance from the Siasconset Underground Project against the CFS. All of the Company's customers in the Town of Nantucket were assessed the two percent surcharge and all of its customers in the Town are subject to the CFS (Exh. DTE 1-1). Therefore, as the charges are assessed against the same pool of customers, the Department finds that this is an appropriate resolution of this account.

With regard to rate recovery for the second cable, the Department is cognizant of recent increases to electricity supply prices. In addition, the Company proposes a relatively low interest rate on the deferral set at the customer deposit rate, which for 2005 is at 2.38 percent. The Department finds that, under these particular circumstances, delaying implementation of rate recovery for the second cable is reasonable.

Therefore, having reviewed the components of Nantucket Electric's 2006 CFS revenue requirement, the Department finds that the Company's methods of calculating and allocating the 2006 CFS revenue requirements are consistent with the Department's rate design requirements and with D.P.U. 95-67. Accordingly, the Department approves the 2006 CFS proposed by Nantucket Electric.

III. ORDER

Accordingly, after due notice, hearing, and consideration, it is

ORDERED: That Nantucket Electric Company shall maintain the twelve-month cable facilities surcharge rates approved in Nantucket Electric Company, D.T.E. 04-112 (2004) in effect for calendar year 2006.

FURTHER ORDERED: That Nantucket Electric Company comply with any and all other directives contained in this Order.

By Order of the Department,

/s/
Paul G. Afonso, Chairman

/s/
James Connelly, Commissioner

/s/
W. Robert Keating, Commissioner

/s/
Judith F. Judson, Commissioner

/s/
Brian Paul Golden, Commissioner

An appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of the twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. G.L. c. 25, § 5.